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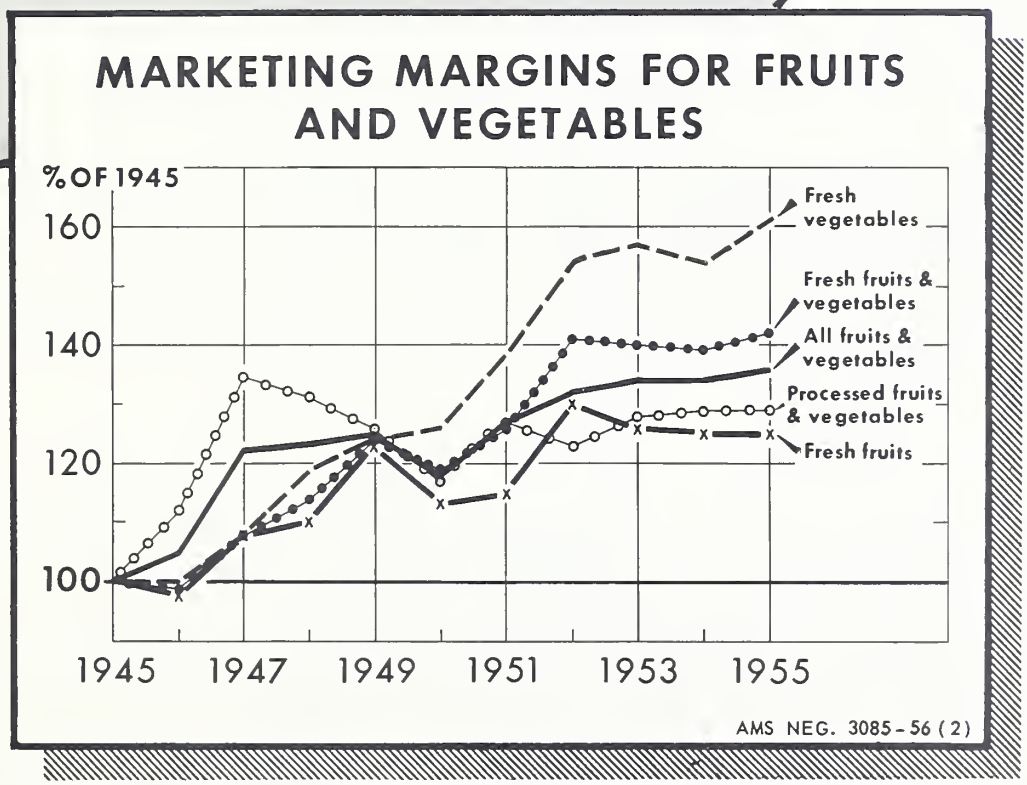
MARKETING MARGINS for FRUITS and VEGETABLES



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UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

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MARKETING MARGINS FOR FRUITS AND VEGETABLES 1/

Marketing margins for fruits and vegetables, like those for other food products, have risen since the end of World War II, but the rate of increase has been less than the average increase for all farm food products in the market basket. Between 1945 and 1955, marketing charges for all fruits and vegetables, both fresh and processed, increased 36 percent. Over two-thirds of the increase occurred during the postwar inflation between 1945 and 1949. During the 11 years from 1945 to 1955 the retail cost of fruits and vegetables in the market basket increased 21 percent while the farm value of the equivalent quantity of produce decreased about 5 percent. The farmer's share of the consumer's dollar dropped from 37 percent in 1945 and 1946 to 32 percent in 1947. Since then, it has fluctuated between 29 and 32 percent. In the last 3 years, it has been 29 percent.

Rise in Marketing Costs

The increase in the spread between what the consumer pays and what the farmer receives for an equivalent quantity of produce has resulted mostly from increases in the costs of marketing services and the provision of additional services. The increases in marketing costs have resulted from rises in labor costs and transportation charges and increased prices of materials, equipment, and services bought by marketing firms.

Labor costs are a major component of the marketing bill for fruits and vegetables. Average hourly earnings of employees in the canning and preserving industry increased from 80 cents in 1945 to $1.46 2/ in 1955. Some firms in this industry process frozen fruits and vegetables. Those of employees in retail food stores rose from 79 cents in 1945 to $1.63 2/ in 1955, an increase of 106 percent. Hourly earnings of employees of firms specializing in the marketing of fresh fruits and vegetables are not available, but the increases probably are comparable to those cited above.

Transportation charges are a substantial part of the marketing margin for fruits and vegetables. Some of the most important production areas are far removed from many of the larger markets. Many products are perishable and must be shipped under refrigeration and handled with care. The proportion of the marketing margin paid for transportation has increased in recent years because of the increasing quantities of vegetables being produced in such distant areas. The index of railroad freight rates, calculated for all agricultural commodities by the Agricultural Marketing Service, was 63 percent higher in 1955 than in 1945 as a result of 12 general rate increases between 1946 and 1952. The index of rates for fresh fruits and vegetables rose about 48 percent. It is estimated that rates for processed products increased about 60 percent. Charges made by railroads for refrigeration services have increased approximately 32 percent since 1948. An increasing proportion of shipments of fresh fruits and vegetables is being made by truck. Rates charged by these carriers are not available, but it is probable that they have increased in roughly the same proportion as rail rates.

1/ Prepared by Alden C. Manchester, Alvin Z. Macomber, and Jules V. Powell, Agricultural Economists, Agr. Market. Serv., USDA.

2/ Preliminary.

Costs of other items used by marketing firms also have risen during this period. Prices of paperboard rose about 28 percent between 1947 and 1955, while prices of metal containers increased 46 percent. Power, light, and fuel increased about 18 percent and machinery and motive power products 38 percent. Rents and taxes also increased.

Profits of leading canning companies, as a percentage of stockholders' equity, generally have been lower than for most other groups of food-processing firms. In 1954 they averaged 8 percent after taxes compared with an average of 8.8 percent for leading companies in all lines of food processing. Profits (after taxes) of the canning companies were lower in 1954 than in 1945, both as a percentage of sales and as a percentage of stockholders' equity. Some of these firms were freezers as well as canners. Leading chain-store companies reported profits (after taxes) of 10.9 percent of stockholders' equity in 1954 or 1.0 percent of sales.

Fresh Fruits and Vegetables

From 1945 to 1952 marketing charges for fresh fruits and vegetables rose 41 percent, due in part to the rapid increase in freight rates during that period. Since 1952 marketing charges for fresh fruits and vegetables have risen only 1 percent. The farmer's share of the consumer's dollar spent for fresh fruits and vegetables was 36 percent in 1955, compared with 46 percent in 1945.

Marketing margins for fresh vegetables have increased more than those for fresh fruits, probably partly because of the recent trend of vegetable production to specialized areas and the shipment of these vegetables to distant markets during longer seasons of the year. From 1945 to 1949 margins for fresh fruits and vegetables rose in about the same proportions (23 and 25 percent, respectively). Since 1949, marketing margins for fresh fruits have increased only 2 percent while those for fresh vegetables have risen 30 percent. The farmer's share of the consumer's dollar for fresh fruits rose from 36 percent to 37 percent during the latter period, while that for fresh vegetables declined from 43 to 35 percent.

Processed Fruits and Vegetables

Marketing margins for processed fruits and vegetables have increased less than those for the fresh products. All of the increase in margins for processed fruits and vegetables occurred between 1945 and 1947. Between 1947 and 1955 marketing charges for processed fruits and vegetables declined about 4 percent, but the farm value declined 16 percent, so the farmer's share of the consumer's dollar dropped from 22 percent to 20 percent.

Marketing Margins for Oranges

Since 1945, the average retail price of all oranges for fresh consumption has fluctuated between 43.4 cents and 55.4 cents per dozen, while the farm value of an equivalent quantity has varied from 11.6 to 20.5 cents. The average retail price in 1955 was 53 cents per dozen, approximately 9 percent above the 1945 level. The farm value of an equivalent quantity in 1955 was 37.1 cents, which was about 19 percent below the 1945 value. Marketing margins rose fairly steadily from 1945 to 1952. Since then they have remained approximately stable at a level approximately one-fourth higher than in 1945, but only 9 percent higher than the 1947-49 average.

The farmer's share of the dollar spent by consumers for oranges was at a peak of 41 percent in 1946. It dropped sharply to 27 percent in 1947 and since then has fluctuated between 25 and 34 percent. In 1955 it averaged 30 percent.

The average retail price of California Valencia oranges in mid-November 1955 was 71 percent higher than Florida oranges (all varieties) in New York City and 89 percent higher in Chicago. (See table 19.) The spread between the average auction price and the average retail price in the two cities was 31 percent and 35 percent higher, respectively, for California Valencias than for Florida oranges. Accordingly, auction-to-retail margins constituted a considerably smaller percentage of the consumer's dollar for California oranges than for the Florida product. Rail freight rates including the cost of refrigeration accounted for 15 to 20 percent of the consumer's dollar.

Table 19.- Oranges, California and Florida: Prices and marketing margins per 1-3/5 bushel box, New York City and Chicago, November 1955

Item	Price		Auction to retail margin	
	Auction	Retail	Actual	Percentage of retail price
	Dollars	Dollars	Dollars	Percent
Florida, all varieties:				
Chicago	3.47	6.66	3.19	48
New York City	3.70	7.47	3.77	50
California, Valencias:				
Chicago	8.28	12.58	4.30	34
New York City	7.75	12.67	4.92	39

Marketing Margins for Potatoes

The spread between the United States average retail price of white potatoes (all varieties combined) and the farm value has risen 60 percent since 1945 and is 35 percent above the 1947-49 average. It rose steadily from 1945 to 1951, except for a slight dip in 1950. Then it jumped 26 percent between 1951 and 1952, declined modestly in 1953 and 1954, and increased again in 1955. The farmer's share of the retail price was 53 percent in 1945. Between 1946 and 1952 it varied between 39 and 51 percent. Since 1953, potato producers have received from 34 to 35 percent of the consumer's dollar, as have producers of other fresh vegetables on the average. From 1945 to 1952 the farmer's share of the consumer's dollar for potatoes was higher than the average for all fresh vegetables included in the market basket, except for 1950 when each reached a low point of 39 percent.

An idea of current margins between shipping point and retail prices can be obtained from a comparison of prices at these levels for Idaho Russet Burbank potatoes sold in four major cities. The grower and the shipper together received from 28 to 34 percent of the retail price (table 20). The grower-shipper share of the retail price for Long Island Round White potatoes sold in New York City at the same time was 32 percent. Retail prices of Idaho potatoes ranged from the equivalent of $6.60 per 100 pounds in Los Angeles to $8.00 in New York City, while Long Island potatoes were bringing $4.50 per 100 pounds in New York City.

Retail margins (the spread between the wholesale and retail prices) on Idaho Russet Burbanks ranged from $2.72 per 100 pounds in Atlanta to $3.60 in New York City. The lowest retail margins, in terms of a percentage of the retail price, were found in Atlanta and the highest in Los Angeles. Retail margins on Long Island potatoes in New York City were lower than those found in any of the four cities for Idaho potatoes in dollar terms but higher in percentage terms.

Table 20.- Potatoes, Idaho Russet Burbank and Long Island Whites: Average prices, marketing margins, and transportation charges per 100 pounds, in selected markets, November 1955

Item	Idaho Russet Burbanks				Long Island Round Whites
	Atlanta	Chicago	Los Angeles	New York City	New York City
	Dollars	Dollars	Dollars	Dollars	Dollars
Price: 1/					
Shipping point	2.25	2.25	2.25	2.25	1.46
Wholesale	4.18	3.90	3.15	4.40	1.84
Retail	6.90	6.80	6.60	8.00	4.50
Margin shipping point to retail:					
Rail freight 2/	1.61	1.26	.81	1.66	.31
Wholesale 3/	.32	.39	.09	.49	.07
Retail 4/	2.72	2.90	3.45	3.60	2.66
Total	4.65	4.55	4.35	5.75	3.04
	Percent	Percent	Percent	Percent	Percent
Percentage of retail price:					
Rail freight	23	19	12	21	7
Wholesale margin	5	6	1	6	2
Retail margin	39	43	52	45	59
Total	67	68	65	72	68

1/ Shipping point price: Average prices f.o.b. Twin Falls, Idaho, and Riverhead, Long Island, week ended Nov. 5, 1955. Market News Service.
Wholesale price: Average price, less-than-carload lots, Nov. 8, 1955. Market News Service.
Retail price: Average price, Nov. 14-16, 1955. Bureau of Labor Statistics.

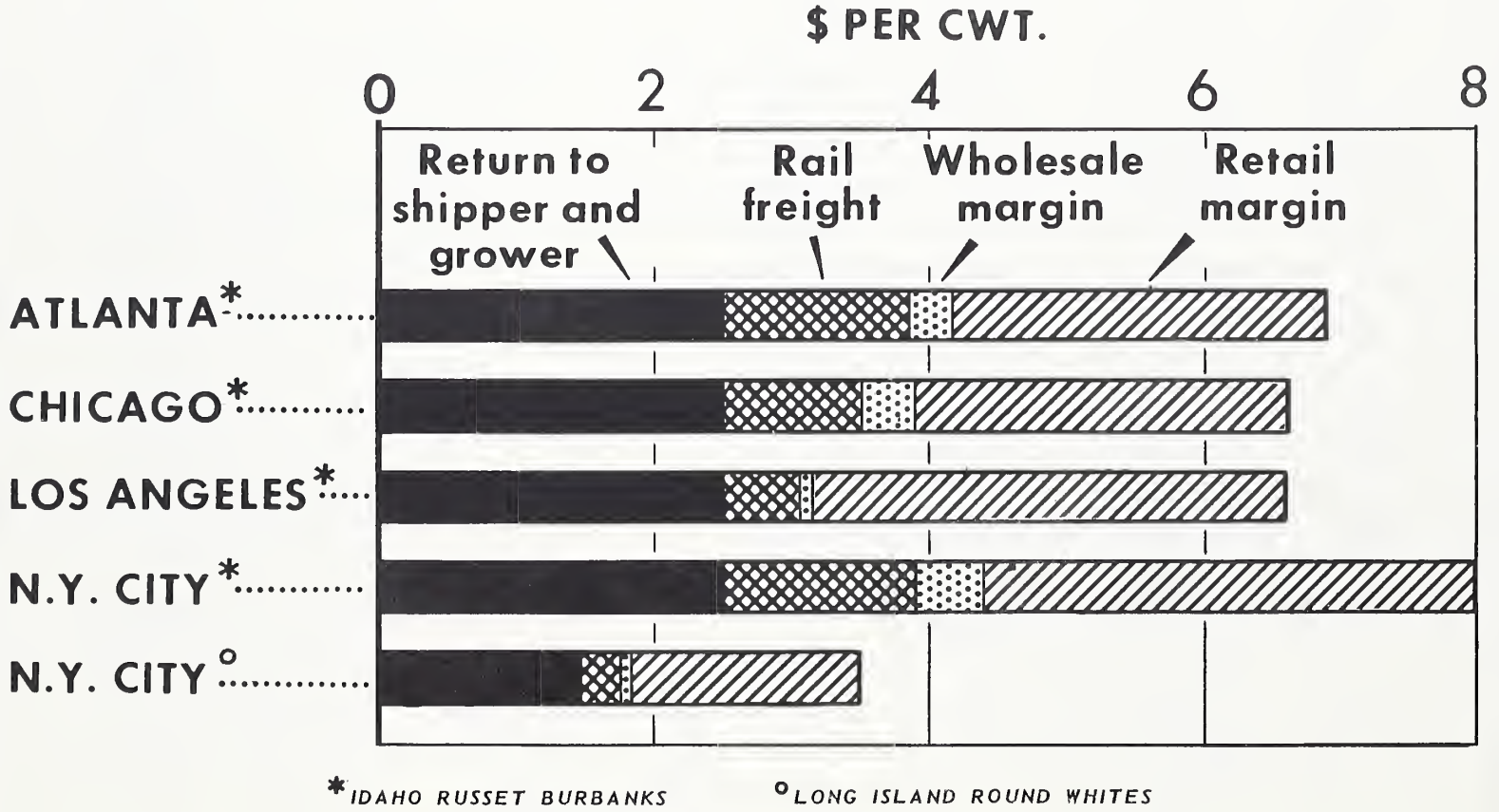
2/ Rail freight from Twin Falls, Idaho, and Riverhead, Long Island, including 3 percent Federal tax.

3/ Wholesale price less transportation and shipping point price.

4/ Retail price less wholesale price.

PRICES AND MARKETING MARGINS FOR POTATOES

Four Markets, November 1955



*IDAHO RUSSET BURBANKS °LONG ISLAND ROUND WHITES

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The margin available to the wholesaler to cover his costs, including that of cartage from the railroad yards to the wholesale market, after paying rail freight from the shipping point ranged from 9 cents per 100 pounds in Los Angeles to 49 cents in New York City on Idaho potatoes and constituted from 1 to 6 percent of the retail price. 3/ If the New York City wholesaler had chosen to ship potatoes from Riverhead, Long Island, by rail, he would have had only 7 cents per 100 pounds remaining to cover all of his costs. It is likely that most shipments from Long Island production areas into New York City were made by truck at somewhat lower costs.

These figures are for particular days. Prices of potatoes vary substantially from season to season and from one day and week to another within a season. Marketing margins also vary from time to time. No allowance has been made in these figures for waste and spoilage, which according to other studies, have averaged between 1 and 2 percent of the potatoes purchased by retailers. 4/ If these figures are typical of waste in these four cities at this time of the year, the retail margin would be approximately 1 to 2 percent lower than those shown here.

Marketing Margins for California Lettuce

The operations and costs involved in marketing lettuce are illustrated in the following account of one shipment. The data are believed to be typical but they do not represent averages for all shipments. The operations involved in the marketing of lettuce are typical of those for many perishable vegetables which are produced in specialized production areas and shipped long distances to market.

Lettuce shipped from Salinas, California, on October 3, 1955, brought the shipper $1.35 per carton of 24 heads loaded on the freight car. The shipper incurred costs of about 75 cents per carton to prepare the lettuce for shipment, leaving 60 cents with which to pay the grower and to cover his own profit.

	Cents
Harvesting and packing labor	15.2
Machinery and equipment	6.4
Cartons and staples	27.0
Precooling and loading	15.0
Administrative, advertising, and selling costs	11.0
Total shipping-point costs	74.6

3/ Cartage rates in the four markets in 1952 ranged from 10 to 20 cents per 100 pounds of potatoes. Ezekiel Limmer, Railroad and Truck Rates and Movements of Fresh Fruits and Vegetables from Florida, AMS-53, June 1955, p. 26.

4/ William N. Garrott, Marketing Charges for Potatoes Sold in Cleveland, Ohio, Feb.-June 1950, U. S. Bur. Agr. Econ., Market. Res. Rept. 21, 1952, p. 10.

The car of lettuce arrived in New York City early in the morning of October 10. The wholesaler who had bought it had paid shipping costs of $1.13 per carton plus the $1.35 per carton paid to the shipper.

	Dollars
Freight, including 3 percent Federal tax	0.92
Refrigeration, including full stage standard refrigeration, 2 percent salt, initial bunker ice, switching charge, 3 percent Federal tax	.21
Total transportation costs	1.13

The wholesaler sold the lettuce to a supermarket for $3 per carton, which left him a gross margin of 52 cents. From this he had to pay the costs of hauling the lettuce from the railroad terminal to the supermarket and his other handling costs.

The supermarket sold lettuce on October 12 at 16 cents per head. However, it sold only 23 of the 24 heads in a carton, since one head in each carton was lost through spoilage. Thus, the supermarket operator sold the lettuce for $3.68 per carton and realized a gross margin of 68 cents to cover his costs of operation and profit.